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Cc:
Bcc:
Date: Mon, 6 Oct 2008 14:42:55 -0700
Subject: iPhone App

Hey dad. I'm trying to get a company started to make a MultiPlayer game similar to Tetris for the iPhone.

The market for iPhone games has exploded ever since apple opened its doors to outside developers (the apple Standard Developers Kit which is used to program iPhones, iPods, Mac OS, etc. is now free and available to anyone on the apple website).

I've met with Wayne Westerman, the man who invented the touch screen and the accelerometer interfaces for the iPhone and is Steve Job's right hand man. (Coincidentally he is Michael's sister's boyfriend). He gave me some inside advice, telling me the time to get games out is now.

The appstore is the platform from which these games run. Heres how it works: If you own an iPhone, you access iTunes either on your phone or on you mac. You browse through the different applications that are for sale (apple maintains "whats hot", "top ten paid app" and "top ten free app" sections.), click on one, and it appears on your phone. Its simple and goes straight to your bill. Meanwhile, apple takes a 30% cut out of profits, and sends the game owner a check.

What this means is easy marketing for developers and a direct means of reaping what you sow. Generally, gaming programmers have to jump through hoops to advertise and expose their games. They work on building a community (which is a long and pricey process that usually involves giving your product away for free) and subsequently either 1) opt to sell their company or 2) run advertisements and make money this way. Only after this process do they see any return.

With the Appstore, independent developers name the price, and the product goes directly to the user.

Why apple does this: it wants to attract attention, it wants the iPhone to have snazzy games that appear magically, and it wants to take a significant chunk of the earnings.

60 days after the release of the SDK, the sale of a developers license (\$100 for independents and \$300 for large companies), and the opening of the appstore, apple hit its 1Million download marker! No doubt because iPhone users define themselves as technically sophisticated, are on average under 30 years of age, and are financially stable. They are the products of the email/internet HERE and NOW generation. They like easy, smooth, features, and they download and use an average of 10 apps per month.

Simple games like Trism (<http://blog.wired.com/gadgets/2008/09/indie-developer.html>), 2 Across (<http://arstechnica.com/journals/apple.ars/2008/08/04/app-store-bringing-in-strong-revenue-for-some-iphone-devs>), air hockey, and racing games made by private developers have made 250K each in 2 months! (This is after the 30% cut, after paying back start-up costs, and after paying for the SDK/Developers license).

Large companies have also released games, but have paid less attention to detail. The current Tetris game (which has about 1000 customer reviews, meaning that over 165,000 users have downloaded the app) has only a 2.5 rating out of 5. Customers complain about bugs and the game crashing. (The only reported perks are its nice graphics.) Regardless, Tetris sells at ~10.00 per game and is bringing in money. The only reason they buy the game is because there aren't alternatives.

What is going on in the www is social networking: Facebook, Myspace, Twitter, Pownce, etc. What everyone would like to see is a multiplayer/social approach to iPhone games.

Currently there is only one multiplayer iPhone app game (Galcon). Coincidentally, Michael worked with the developer, Phil Hassey on the desktop version. So, he put me in contact with Phil, who disclosed his numbers to me: he has sold 10,000 games in a month (at ~\$10 per game). The issue with Galcon is that it attracts a very narrow audience. It is a game of strategy and manipulation, and it is hard to get into. Its not something just anyone would play. Its big among developers themselves, but too complicated for the average user. Despite this, he has made ~\$100,000. Also, Phil is a good friend of Michael's and is willing to share all of his experience to help my company succeed. He loves the idea of a MP approach to a simpler game.

One night, after discussing the iPhone appstore at length, I thought of Tetranet. **Tetra** is the Greek derivative for numerical units of four. **Net** implies a social network/community. Tetranet is a fast-paced puzzle game which involves arranging blocks of four-subunits on a screen and simultaneously competing with other players. With the iPhone's UI, a lot can be done with Tetranet including implementing poke, flick, and drag properties as well as the tilt and flip (taking advantage of the accelerometer).

By marketing Tetranet as a competitive and social entity, we have the power to foster a strong community built by score boards, online buddy systems, and challenge functions (where one user can choose to challenge another player for a higher position on the score board).

The inherent value of a multiplayer game can double/tripple sales...

We have the unique opportunity to take advantage of a marketing scheme based on a multiplayer platform: That is, we allow Tetranet owners (hosts) to send challenges out to friends in their address book (guests). Tetranet guests can then download a free version of Tetranet that only permits playing against a host.

The benefit of this is twofold:

- 1) Our marketing is done for free -- who wouldn't want to challenge friends for free? This

exposes the product. Eventually, guests will be drawn to purchase Tetranet (full version) in order to

- play when they want
- challenge who they want
- appear on the national scoreboard

2) Being able to play friends who aren't willing to pay is a huge feature that makes the game more valuable.

Phil Hassey took this very approach with his desktop version of Galcon, and this tactic alone created his empire.

In sum, the three reasons why tetranet will absolutely succeed are as follows:

- 1) The concept is popular- everyone knows about it
- 2) Its simple to play (dead-simple rules, high replay value), and its simple to develop (much less challenging than poker, for example) and will be FAR better than the existing Tetris flop (which suffers from glitches and thus low ratings).
- 3) Its multiplayer- first mover advantage/ chance to take advantage of social network

Why no one else has done this yet...

When EA announced Tetris, no one thought it would be as bad as it is. At this point, its just a matter of time until someone beats them.

I am in the unique position of having direct, daily contact with some of the best engineers, artists, and electronic musicians in the industry. The number-one problem that businesses is face is recruiting good talent. However, Michael has provided me with bios of different developers with whom he has worked, and he knows which ones are the most efficient, creative, and driven.

Ive got a team together that is eager to get started (music producer, game app developer, network developer, and UI coder).

My position

The only way I can get a large cut in this is if I take care of everything BUT programming. My responsibilities are to secure funding, incorporate, and to take care of negotiations/lawyers/license, and advertising. This way, all that remains is sitting my team down and letting them do what they are good at.

In their minds, I have done and will continue to do all of the "hard work". This way, I set the terms.

I have calculated \$5,000 start-up expenses. (See spreadsheet)

My options for funding, in no particular order, are as follows:

- 1) Use what we have (my macbook, one of the deveoper's iPhones), take lower cut because my role is less significant; they might be able to do it on their own.
- 2) Wait to months: Earn \$2,000 income, then fund the project by myself on bare minimum funds
- 3) Fund project completely on credit, earn \$2000 later if startup fails
- 4) Seed Investor Pomona alumni, full \$5k for 5-10%
- 5) Michael's mom \$5,000 at 5%
- 6) Incorporate first. (Latancy period long.) Find and apply to established seed investor (I have two personal introductions to angel investors).

I can explain each of these further on the phone.

My questions to you are:

- 1) Is it possible to fund on credit/is the personal risk too high? If not, how do I go about extending my credit limit/ setting fixed interest rates or at least negotiating the best interest rates? Would some banks be better for this than others?
- 2) Do you think its a bad idea to get funding from MC's mom, considering the personal relationship?
- 3) Pomona alumni investor: pro is that we can start ASAP, con is that he seems to want to micromanage and will most likely want a higher cut

Also, I am doing some research about incoroprating a business. So far, I have read that a C-corp is good to begin in delaware because a good evnironmet exists for business owners ("business is always right" mentality). In CA, on the other hand, users are always right. BUT doing a c-corp out-of-state disqualifies you from 800\$ first year rebate for CA businesses. Plus, you have to pay fees (\$400) for running out of CA.

A C-corp in CA would not be wise for a small business (taxed twice).

S-corp seems to be best option for Ca:

- exempt from corporate tax
- Can update to C-corp smoothly
- Better for small businesses with individual owners (not VC companies)
- more likely to be considered for buy-out later on (than LLC)

As far as I know, no s-corp status exists in delaware.

Any input here?

-Des

Attachment: startup_expenses.ods